

Introduced by Senator SimitianFebruary 23, 2006

An act to amend Sections 33127 and 42127 of, and to add Sections 42135 and 42136 to, the Education Code, relating to school districts.

LEGISLATIVE COUNSEL'S DIGEST

SB 1457, as introduced, Simitian. School district: postretirement employee benefits.

Existing law requires the Superintendent of Public Instruction, the Controller, and the Director of Finance to develop standards and criteria to be reviewed and adopted by the State Board of Education, and to be used by local educational agencies in the development of annual budgets and the management of subsequent expenditures from that budget.

This bill would require the State Department of Education, with the assistance of the Controller and the Director of Finance, to develop standards and criteria for actuarial studies of school district liabilities for retired employee health and welfare benefits other than pensions, as specified.

Existing law requires the governing board of school districts to adopt an annual budget and to perform other specified tasks relating to the budget process, including, but not limited to, holding public hearings.

This bill would require the governing boards of school districts to determine whether the adopted budget includes the amount of funding for retired employee health and welfare benefits other than pensions identified in plans developed by the school district, as specified. This bill would require governing boards to identify, if necessary, the amount of funding that would be necessary to fully fund the plans developed by the school district, as specified.

Existing law requires the superintendent of each school district to submit reports, as specified, on the financial and budgetary status of the school district for each fiscal year to the governing board of the district.

This bill would require school districts that provide retired employees health and welfare benefits other than pensions to develop a long-term plan, as specified, that identifies the manner in which the district will fund the benefits for current and future retired employees. This bill would require school districts that have actuarial studies conducted regarding retired employee health and welfare benefits other than pensions to provide a copy of the most recent study to the county office of education by January 30, 2007. This bill would require the State Department of Education to submit reports, as specified, to the appropriate policy and fiscal committees of the Legislature, the State Legislative Analyst, and the State Department of Finance concerning the outstanding liabilities of school districts for retired employee health and welfare benefits other than pensions.

By requiring school districts to perform additional duties, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 33127 of the Education Code is
2 amended to read:
3 33127. (a) ~~The Superintendent of Public Instruction, the~~
4 ~~Controller, and the Director of the Department of Finance shall~~
5 ~~develop, on or before March 1, 1989, standards and criteria to be~~
6 ~~reviewed and adopted by the State Board of Education~~ *state*
7 *board*, and to be used by local educational agencies in the
8 development of annual budgets and the management of

1 subsequent expenditures from that budget. During the
2 development of the standards and criteria, the Superintendent of
3 ~~Public Instruction~~ shall convene a committee composed of
4 representatives from school districts, county offices of education,
5 state agencies, the Legislature, and appropriate labor and
6 professional organizations. The committee may review and
7 comment on the proposal standards and criteria prior to their
8 adoption. In addition, the standards and criteria shall be used to
9 monitor the fiscal stability of local educational agencies as
10 provided for in Sections 1240.1, 1240.2, 1621, 1623, 33131,
11 42127, and 42127.1.

12 (b) ~~The Superintendent of Public Instruction, the Controller,~~
13 ~~and the Director of the Department of Finance~~ shall update the
14 standards and criteria developed pursuant to subdivision (a) on or
15 before September 1, 2005. The updated standards and criteria
16 shall be reviewed and adopted pursuant to the procedure
17 established by subdivision (a) and are applicable to local
18 educational agency budgets commencing with the 2006-07 fiscal
19 year and each fiscal year thereafter.

20 (c) After September 1, 2005, to the extent necessary, any
21 revisions or updates to the standards and criteria shall be
22 developed by the ~~Superintendent of Public Instruction,~~
23 ~~Controller, and the Director of the Department of Finance~~
24 pursuant the procedures established by subdivision (a). The
25 revisions or updates shall specify the fiscal year in which the
26 revisions or updates are applicable.

27 (d) *The department, with the assistance of the Controller and*
28 *the Director of Finance, shall develop standards and criteria for*
29 *actuarial studies of the liabilities of school districts for retired*
30 *employee health and welfare benefits other than pensions in*
31 *accordance with Statement 45, issued by the Governmental*
32 *Accounting Standards Board in June 2004, and in accordance*
33 *with plans developed by school districts pursuant to Section*
34 *42135. The standards and criteria shall include guidance on*
35 *developing reasonable assumptions concerning future increases*
36 *in medical costs and appropriate methods for identifying*
37 *long-term discount rates.*

38 SEC. 2. Section 42127 of the Education Code is amended to
39 read:

1 42127. (a) On or before July 1 of each year, the governing
2 board of each school district shall accomplish the following:

3 (1) Hold a public hearing on the budget to be adopted for the
4 subsequent fiscal year. The budget to be adopted shall be
5 prepared in accordance with Section 42126. The agenda for that
6 hearing shall be posted at least 72 hours prior to the public
7 hearing and shall include the location where the budget will be
8 available for public inspection.

9 (2) Adopt a budget. Not later than five days after that adoption
10 or by July 1, whichever occurs first, the governing board shall
11 file that budget with the county superintendent of schools. That
12 budget and supporting data shall be maintained and made
13 available for public review. If the governing board of the district
14 does not want all or a portion of the property tax requirement
15 levied for the purpose of making payments for the interest and
16 redemption charges on indebtedness as described in paragraph
17 (1) or (2) of subdivision (b) of Section 1 of Article XIII A of the
18 California Constitution, the budget shall include a statement of
19 the amount or portion for which a levy shall not be made.

20 (b) The county superintendent of schools may accept changes
21 in any statement included in the budget, pursuant to subdivision
22 (a), of the amount or portion for which a property tax levy shall
23 not be made. The county superintendent or the county auditor
24 shall compute the actual amounts to be levied on the property tax
25 rolls of the district for purposes that exceed apportionments to
26 the district pursuant to Chapter 6 (commencing with Section 95)
27 of Part 0.5 of Division 1 of the Revenue and Taxation Code.
28 Each school district shall provide all data needed by the county
29 superintendent or the county auditor to compute the amounts. On
30 or before August 15, the county superintendent shall transmit the
31 amounts computed to the county auditor who shall compute the
32 tax rates necessary to produce the amounts. On or before
33 September 1, the county auditor shall submit the rate computed
34 to the board of supervisors for adoption.

35 (c) The county superintendent of schools shall do all of the
36 following:

37 (1) Examine the adopted budget to determine whether it
38 complies with the standards and criteria adopted by the ~~State~~
39 ~~Board of Education~~ *state board* pursuant to Section 33127 for
40 application to final local educational agency budgets. The county

1 superintendent shall identify, if necessary, any technical
2 corrections that are required to be made to bring the budget into
3 compliance with those standards and criteria.

4 (2) Determine whether the adopted budget will allow the
5 district to meet its financial obligations during the fiscal year and
6 is consistent with a financial plan that will enable the district to
7 satisfy its multiyear financial commitments. In addition to his or
8 her own analysis of the budget of each school district, the county
9 superintendent of schools shall review and consider studies,
10 reports, evaluations, or audits of the school district that were
11 commissioned by the district, the county superintendent, the
12 Superintendent, and state control agencies and that contain
13 evidence that the school district is showing fiscal distress under
14 the standards and criteria adopted in Section 33127 or that
15 contain a finding by an external reviewer that more than three of
16 the 15 most common predictors of a school district needing
17 intervention, as determined by the County Office Fiscal Crisis
18 and Management Assistance Team, are present. The county
19 superintendent of schools shall either conditionally approve or
20 disapprove a budget that does not provide adequate assurance
21 that the district will meet its current and future obligations and
22 resolve any problems identified in studies, reports, evaluations,
23 or audits described in this paragraph.

24 (3) *Determine whether the adopted budget includes the*
25 *amount of funding necessary to satisfy liabilities for retired*
26 *employee health and welfare benefits other than pensions*
27 *identified in plans developed by the school district pursuant to*
28 *Section 42135, and identify, if necessary, the amount of*
29 *additional funding necessary to fully fund those plans.*

30 (d) On or before August 15, the county superintendent of
31 schools shall approve, conditionally approve, or disapprove the
32 adopted budget for each school district. If a school district does
33 not submit a budget to the county superintendent of schools, the
34 county superintendent of schools shall, at district expense,
35 develop a budget for that school district by September 15 and
36 transmit that budget to the governing board of the school district.
37 The budget prepared by the county superintendent of schools
38 shall be deemed adopted, unless the county superintendent of
39 schools approves any modifications made by the governing board
40 of the school district. The approved budget shall be used as a

1 guide for the district's priorities. The Superintendent shall review
2 and certify the budget approved by the county. If, pursuant to the
3 review conducted pursuant to subdivision (c), the county
4 superintendent of schools determines that the adopted budget for
5 a school district does not satisfy paragraph (1) or (2) of that
6 subdivision, he or she shall conditionally approve or disapprove
7 the budget and, not later than August 15, transmit to the
8 governing board of the school district, in writing, his or her
9 recommendations regarding revision of the budget and the
10 reasons for those recommendations, including, but not limited to,
11 the amounts of any budget adjustments needed before he or she
12 can conditionally approve that budget. The county superintendent
13 of schools may assign a fiscal adviser to assist the district to
14 develop a budget in compliance with those revisions. In addition,
15 the county superintendent of schools may appoint a committee to
16 examine and comment on the superintendent's review and
17 recommendations, subject to the requirement that the committee
18 report its findings to the superintendent no later than August 20.

19 (e) On or before September 8, the governing board of the
20 school district shall revise the adopted budget to reflect changes
21 in projected income or expenditures subsequent to July 1, and to
22 include any response to the recommendations of the county
23 superintendent of schools, shall adopt the revised budget, and
24 shall file the revised budget with the county superintendent of
25 schools. Prior to revising the budget, the governing board shall
26 hold a public hearing regarding the proposed revisions, to be
27 conducted in accordance with Section 42103. In addition, if the
28 adopted budget is disapproved pursuant to subdivision (d), the
29 governing board and the county superintendent of schools shall
30 review the disapproval and the recommendations of the county
31 superintendent of schools regarding revision of the budget at the
32 public hearing. The revised budget and supporting data shall be
33 maintained and made available for public review.

34 (f) On or before September 22, the county superintendent of
35 schools shall provide a list to the Superintendent identifying all
36 school districts for which budgets may be disapproved.

37 (g) The county superintendent of schools shall examine the
38 revised budget to determine whether it (1) complies with the
39 standards and criteria adopted by the ~~State Board of Education~~
40 *state board* pursuant to Section 33127 for application to final

1 local educational agency budgets, (2) allows the district to meet
2 its financial obligations during the fiscal year, (3) satisfies all
3 conditions established by the county superintendent of schools in
4 the case of a conditionally approved budget, and (4) is consistent
5 with a financial plan that will enable the district to satisfy its
6 multiyear financial commitments, and, not later than October 8,
7 shall approve or disapprove the revised budget. If the county
8 superintendent of schools disapproves the budget, he or she shall
9 call for the formation of a budget review committee pursuant to
10 Section 42127.1, unless the governing board of the school district
11 and the county superintendent of schools agree to waive the
12 requirement that a budget review committee be formed and the
13 department approves the waiver after determining that a budget
14 review committee is not necessary. Upon the grant of a waiver,
15 the county superintendent has the authority and responsibility
16 provided to a budget review committee in Section 42127.3. Upon
17 approving a waiver of the budget review committee, the
18 department shall ensure that a balanced budget is adopted for the
19 school district by November 30. If no budget is adopted by
20 November 30, the Superintendent may adopt a budget for the
21 school district. The Superintendent shall report to the Legislature
22 and the Director of Finance by December 10 if any district,
23 including a district that has received a waiver of the budget
24 review committee process, does not have an adopted budget by
25 November 30. This report shall include the reasons why a budget
26 has not been adopted by the deadline, the steps being taken to
27 finalize budget adoption, the date the adopted budget is
28 anticipated, and whether the Superintendent has or will exercise
29 his or her authority to adopt a budget for the school district.

30 (h) Not later than October 8, the county superintendent of
31 schools shall submit a report to the Superintendent identifying all
32 school districts for which budgets have been disapproved or
33 budget review committees waived. The report shall include a
34 copy of the written response transmitted to each of those districts
35 pursuant to subdivision (d).

36 (i) Notwithstanding any other provision of this section, the
37 budget review for a school district shall be governed by
38 paragraphs (1), (2), and (3) of this subdivision, rather than by
39 subdivisions (e) and (g), if the governing board of the school
40 district so elects and notifies the county superintendent in writing

1 of that decision, not later than October 31 of the immediately
2 preceding calendar year. On or before July 1, the governing
3 board of a school district for which the budget review is
4 governed by this subdivision, rather than by subdivisions (e) and
5 (g), shall conduct a public hearing regarding its proposed budget
6 in accordance with Section 42103.

7 (1) If the adopted budget of a school district is disapproved
8 pursuant to subdivision (d), on or before September 8, the
9 governing board of the school district, in conjunction with the
10 county superintendent of schools, shall review the
11 superintendent's recommendations at a regular meeting of the
12 governing board and respond to those recommendations. The
13 response shall include any revisions to the adopted budget and
14 other proposed actions to be taken, if any, as a result of those
15 recommendations.

16 (2) On or before September 22, the county superintendent of
17 schools will provide a list to the Superintendent identifying all
18 school districts for which a budget may be tentatively
19 disapproved.

20 (3) Not later than October 8, after receiving the response
21 required under paragraph (1), the county superintendent of
22 schools shall review that response and either approve or
23 disapprove the budget. If the county superintendent of schools
24 disapproves the budget, he or she shall call for the formation of a
25 budget review committee pursuant to Section 42127.1, unless the
26 governing board of the school district and the county
27 superintendent of schools agree to waive the requirement that a
28 budget review committee be formed and the department approves
29 the waiver after determining that a budget review committee is
30 not necessary. Upon the grant of a waiver, the county
31 superintendent has the authority and responsibility provided to a
32 budget review committee in Section 42127.3. Upon approving a
33 waiver of the budget review committee, the department shall
34 ensure that a balanced budget is adopted for the school district by
35 November 30. The Superintendent shall report to the Legislature
36 and the Director of Finance by December 10 if any district,
37 including a district that has received a waiver of the budget
38 review committee process, does not have an adopted budget by
39 November 30. This report shall include the reasons why a budget
40 has not been adopted by the deadline, the steps being taken to

1 finalize budget adoption, and the date the adopted budget is
2 anticipated.

3 (4) Not later than 45 days after the Governor signs the annual
4 Budget Act, the school district shall make available for public
5 review any revisions in revenues and expenditures that it has
6 made to its budget to reflect the funding made available by that
7 Budget Act.

8 (j) Any school district for which the county board of education
9 serves as the governing board is not subject to subdivisions (c) to
10 (h), inclusive, but is governed instead by the budget procedures
11 set forth in Section 1622.

12 SEC. 3. Section 42135 is added to the Education Code, to
13 read:

14 42135. (a) (1) The Legislature finds and declares all of the
15 following:

16 (A) School districts have made significant long-term financial
17 commitments by agreeing to provide benefits such as health
18 insurance to employees upon retirement.

19 (B) School districts may be unaware of the long-term costs of
20 retired employee health and welfare benefits other than pensions
21 or the impact of these costs on local education programs.

22 (2) It is the intent of the Legislature that the plans developed
23 pursuant to this section assist school districts in meeting
24 long-term obligations for retired employee health and welfare
25 benefits other than pensions.

26 (b) A school district that provides retired employee health and
27 welfare benefits other than pensions shall develop a long-term
28 plan that identifies the manner in which the school district will
29 fund those benefits for current and future retirees. The plan shall
30 be based on an actuarial assessment conducted by the school
31 district in accordance with Statement 45, issued by the
32 Governmental Accounting Standards Board in June, 2004. The
33 plan shall describe the amount of funding necessary for the
34 school district to fund retired employee health and welfare
35 benefits other than pensions over a 30-year period. A school
36 district that is required to develop a plan pursuant to this
37 subdivision shall complete the plan, or complete updates to an
38 existing plan, no later than one year after the date by which the
39 school district is advised to complete an actuarial study, as
40 specified in Statement 45.

1 (c) The plans shall be consistent with the standards and criteria
2 developed by the department pursuant to Section 33127.

3 (d) It is the intent of the Legislature that school districts
4 develop sound plans that recognize all of the following:

5 (1) The annual liability for retired employee health and
6 welfare benefits other than pensions incurred for each employee
7 each year.

8 (2) Existing unfunded liability created for current and past
9 employees.

10 (e) The Legislature encourages school districts, to the extent
11 possible, to establish financing plans that fund benefits before
12 any liability exists, and that address existing liability by
13 establishing an amortization schedule that spreads payment of
14 benefit liabilities over a 30-year period.

15 (f) A school district that has an actuarial study conducted
16 regarding the costs of retired employee health and welfare
17 benefits other than pensions after June 30, 2005, shall, by June
18 30, 2007, develop an initial plan using the results of the most
19 recent actuarial study available.

20 SEC. 4. Section 42136 is added to the Education Code, to
21 read:

22 42136. (a) A school district that has an actuarial study
23 conducted regarding the costs of retired employee health and
24 welfare benefits other than pensions shall provide a copy of the
25 most recent report to the county office of education by January
26 30, 2007.

27 (b) The department shall submit all of the following reports to
28 the appropriate policy and fiscal committees of the Legislature,
29 the Legislative Analyst, and the Department of Finance:

30 (1) A report on the outstanding liability of school districts for
31 retired employee health and welfare benefits other than pensions.

32 (2) To the extent that data is available, a report on the annual
33 “normal” cost of health and welfare benefits for current
34 employees, the actuarial cost of health and welfare benefits for
35 current and retired employees, and the amount of health and
36 welfare benefits that have been prefunded.

37 (3) A report on the manner in which school districts have
38 prefunded health and welfare benefits.

1 (4) By January 1, 2008, a report on the liabilities of school
2 districts that provide health and welfare benefits, other than
3 pensions, to retired employees over 65 years of age.

4 (5) By July 1, 2009, a report on the liabilities of school
5 districts that provide retired employee health and welfare benefits
6 other than pensions.

7 SEC. 5. If the Commission on State Mandates determines that
8 this act contains costs mandated by the state, reimbursement to
9 local agencies and school districts for those costs shall be made
10 pursuant to Part 7 (commencing with Section 17500) of Division
11 4 of Title 2 of the Government Code.